

**KRISTIN K. MAYES**  
**ATTORNEY GENERAL**  
(Firm State Bar No. 14000)

Joshua D. Bendor (Bar No. 031908)  
Alexander W. Samuels (Bar No. 028926)  
Clinton N. Garrett (Bar No. 022457)  
Kathryn E. Boughton (Bar No. 036105)  
Office of the Arizona Attorney General  
2005 N. Central Avenue  
Phoenix, AZ 85004-1592  
(602) 542-3333  
Joshua.Bendor@azag.gov  
Alexander.Samuels@azag.gov  
Clinton.Garrett@azag.gov  
Kathryn.Boughton@azag.gov  
ACL@azag.gov

*Attorneys for Plaintiff*  
*State of Arizona*

**UNITED STATES DISTRICT COURT**  
**DISTRICT OF ARIZONA**

State of Arizona,

Plaintiff,

v.

United States Internal Revenue Service;  
Daniel I. Werfel, in his official capacity as  
Commissioner of the United States Internal  
Revenue Service; the United States  
Department of Treasury; Janet L. Yellen,  
in her official capacity as Secretary of the  
United States Department of Treasury; and  
the United States of America,

Defendants.

No. CV-24-00355-PHX-GMS

**SUPPLEMENTAL**  
**DECLARATION OF KAREN**  
**JACOBS**

1 I, Karen Jacobs, declare as follows:

2 1. As set forth in my prior declaration, I am the acting Deputy Assistant  
3 Director of the Office of Economic Research and Analysis for the Arizona Department  
4 of Revenue (the “Department”). I have worked as an economist for the Department for  
5 29 years, providing fiscal analyses and forecasts for the agency and to assist offices in  
6 both the executive and legislative branches, such as the Governor’s Office of Strategic  
7 Planning and Budgeting and the Joint Legislative Budget Committee. Prior to my work  
8 at the Department, I was an economist with the Governor’s Office of Strategic Planning  
9 and Budgeting. I hold a Bachelor of Science, Economics and a Master of Business  
10 Administration from Arizona State University. I have personal knowledge of the matters  
11 herein.  
12

13  
14 2. The Department has the capability to access and analyze aggregate  
15 taxpayer data within the Department’s computer systems. I am familiar with the  
16 Department’s systems and with the process for collecting and analyzing this data.  
17

18 3. As I stated before, the Department estimates that the IRS’s decision to  
19 subject the Tax Rebate to federal taxation has required Arizona taxpayers to remit  
20 approximately \$20.8 million to the IRS. The Department further estimates that this will  
21 cost the State and local jurisdictions approximately \$480,000 in combined transaction  
22 privilege tax revenue. I submit this supplemental declaration to provide additional detail  
23 about how the Department calculated these figures.  
24

25 4. To calculate the estimated \$20.8 million amount, the Department used  
26 data from the IRS’s Statistics of Income to determine the estimated federal average  
27 effective tax rate, or the percent of income that an individual would pay in federal taxes.  
28

The average federal effective tax rates by income bracket (calculated by total income tax / adjusted gross income), was then applied to the Arizona Tax Rebate amount in the corresponding federal adjusted gross income brackets to determine the estimated federal tax on the rebate, as follows:

Federal Adjusted Gross Income Brackets	AZ Family Tax Rebate	Estimated Average Effective Tax Rate	Estimated Federal Tax Due
Negative Fed. AGI	\$867,000	0.13%	\$1,000
\$ 0 - \$ 10,000	\$2,036,000	0.18%	\$4,000
10,000 - 20,000	\$7,363,000	1.10%	\$81,000
20,000 - 25,000	\$7,075,000	1.87%	\$132,000
25,000 - 30,000	\$14,213,000	2.61%	\$371,000
30,000 - 40,000	\$36,166,000	3.71%	\$1,342,000
40,000 - 50,000	\$30,296,000	4.87%	\$1,475,000
50,000 - 75,000	\$52,193,000	6.56%	\$3,424,000
75,000 - 100,000	\$37,073,000	8.11%	\$3,007,000
100,000 - 200,000	\$66,291,000	10.94%	\$7,252,000
\$ 200,000 and over	\$21,906,000	16.77%	\$3,674,000
	\$275,479,000		\$20,763,000

5. The Washington, D.C. Burden Study calculates sales tax (the correct term in Arizona for our gross-receipts version of a traditional sales tax is transaction privilege tax) burden by household size for five hypothetical families at incomes of \$25,000, \$50,000, \$75,000, \$100,000, and \$150,000. The estimated tax burden—which is the amount of transaction privilege tax paid as a percent of income—for a household income at \$25,000 is 4.8%, the burden at \$75,000 is 2.3%, and the burden at \$150,000 is 1.5%. Based on Department data regarding the 2021 average federal adjusted gross income of households that have claimed the Tax Rebate, which was \$87,000, the Department selected a 2.3% burden percentage in this analysis.

6. To estimate the impact of the reduction in income available due to the federal tax on the rebate, the Department then applied the 2.3% burden percentage to the estimated \$20.8 million in taxes paid to the IRS. The resulting calculation provides that Arizona has lost approximately \$480,000 in transaction privilege tax revenue due to the federal taxation of the Tax Rebate.

I declare under penalty of perjury that the foregoing is true and correct.

Karen Jacobs

Karen Jacobs

Executed on May 29, 2024.






# SUPPLEMENTAL DECLARATION OF KAREN JACOBS

Final Audit Report

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